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AD HOC MEETING OF THE CANADA-UNITED STATES INTERPARLIAMENTARY GROUP TO DISCUSS INTERNATIONAL WHEAT MARKETING

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Delegation from the United States attending the conference

Senator Larry Pressler, Co-Chairman (R.-South Dakota)
Representative Thomas A. Daschle, Co-Chairman (D.-South Dakota)
Representative Douglas K. Bereuter (R.-Nebraska)
Representative Glenn English (D.-Oklahoma)
Representative Jim Jeffries (R.-Kansas)
Representative Charles W. Stenholm (D.-Texas)
Representative James Weaver (R.-Oregon)

LETTER OF TRANSMITTAL

Hon. GEORGE BUSH,
President, U.S. Senate.

DEAR MR. VICE PRESIDENT: Pursuant to Public Law 86-42, approved June 11, 1959, and as chairman of the Senate delegation, I have the honor to submit a report on an ad hoc meeting of the Canada-United States Interparliamentary Group, which was held in Washington, D.C. on October 24, 1981.

Sincerely,

LARRY PRESSLER,
U.S. Senator.

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AD HOC MEETING OF THE CANADA-UNITED STATES INTERPARLIAMENTARY GROUP TO DISCUSS INTERNATIONAL WHEAT MARKETING

Background

Public Law 86-42, adopted on June 11, 1959, authorized United States participation in interparliamentary conferences with Canada. The law provides that Members of the U.S. Congress are to be appointed to meet annually with representatives of the House of Commons and the Senate of the Canadian Parliament "for discussion of common problems in the interest of relations between the United States and Canada." At the 21st meeting of the Canada-United States Interparliamentary Group in San Diego, California in May 1980, it was decided that an ad hoc group should meet later in the year to discuss mutual wheat marketing concerns. At the meeting held on July 26, 1980 in Ottawa, Canada, it was decided that a follow-up meeting should be held. The second meeting was held in Washington, D.C. on October 24, 1981.

COMPOSITION OF DELEGATIONS

United States

Representing the Senate was Senator Larry Pressler, South Dakota, Chairman.

Representing the House of Representatives were: Representative Thomas A. Daschle, South Dakota, Chairman; Representative Douglas K. Bereuter, Nebraska; Representative Jim Jeffries, Kansas; Representative Charles W. Stenholm, Texas; and Representative James Weaver, Oregon.

Canada

The members from the Canadian Senate were Senator Dugg Roblin, Manitoba; and Senator Herb Sparrow, Saskatchewan.

The House of Commons was represented by: Jack Murta, M.P., Manitoba, Chairman; Vic Althouse, M.P., Saskatchewan; Charles Mayer, M.P., Manitoba; Bill McKnight, M.P., Saskatchewan; Doug Neil, M.P., Saskatchewan; Frank Oberle, M.P., British Columbia; and Stan Shellenberger, M.P., Alberta.

Agenda

The delegates met in morning and afternoon sessions with three topics discussed in the morning and two topics in the afternoon. The morning session covered a brief discussion of current world market conditions, the short-term outlook for wheat exports and prices; long-term market supply and demand trends in wheat; and increased coordination of United States and Canadian supply man-

agement programs. Subjects discussed during the afternoon session were current and prospective per unit wheat production costs and prospects for increased market development and the encouragement of importing nations to participate in stock-holding.

CURRENT AND SHORT-TERM OUTLOOK FOR WORLD WHEAT MARKET CONDITIONS

The morning session of the International Wheat Marketing talks began with each delegation presenting their views of current and short-term market conditions.

Both Canada and the United States are predicting record harvests in 1981. Canada's wheat production is estimated at 23.7 million tons, up nearly 25 percent from last year and U.S. production is estimated to be record 74.8 million tons. These large yields are attributed to record acreage planted in both nations and favorable weather. Both Canada and the United States increased wheat acreage by approximately 10 percent, and the U.S. yield of 34 bushels per acre was the second highest on record.

World wheat utilization and import demand have both increased, but wheat production increases are larger by 3½ million metric tons. The increase in import demand was basically due to the increased demand of the developing and centrally planned economies. Canadian wheat exports for the August 1981–July 1982 marketing year are forecast at 17 million metric tons—a new record. United States wheat exports for the 1981/1982 marketing year are projected at 50 million tons, up approximately 20 percent from last year. A member of the Canadian delegation explained that because of the great factor the weather plays on Canadian wheat production and exports, it is hard to make accurate predictions. Their transportation system also limits the growth of exports. Canada's two major grain export ports of Vancouver and Thunder Bay are about at maximum capacity.

A member of the U.S. delegation expressed the need to devise an improved supply system to manage the rapidly increasing wheat production. A Canadian delegate then asked how the American farmer would see a change in the U.S. marketing system, to a wheat board type such as Canada's. A U.S. delegate responded that currently, support for a wheat board is lacking, but that a set-aside program is favored. The farm bill has a set-aside program contained in it, but American farmers cannot stay in business much longer under current conditions. One possible area of supply management would be a grain export bank which sets a minimum price for grain exports. The profits of the bank would then be distributed among the grain producers.

A member of the Canadian delegation asked what is meant by supply management and how it is accomplished. The U.S. delegation explained the grain reserve program and the farmer-held reserve program and how they are designed to control wheat supplies. Then a member of the Canadian delegation stated that the Canadian wheat board holds all of their wheat reserves.

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Another member of the Canadian delegation stated that the rate of increases in production are decreasing, due to the farmers cutting back on inputs such as fertilizers, pesticides, herbicides, etc., and that in a few years, this will affect the yields. The U.S. delegation concurred that this same trend is present in the United States.

The delegates then discussed the effects of the Soviet grain embargo. The Canadian treasury had compensated producers for losses resulting from the embargo and most wheat producers did receive a small payment. Canada felt they had stuck to their commitments to the United States, but felt if they hadn't, they could have increased grain exports. They also felt the United States, even with imposition of the embargo, had gone ahead and increased their wheat exports. If a similar situation would ever arise again, Canada would like to be included in discussion of possible action. They felt a more effective policy would be to increase the price of grain to the Soviets. In this way, the farmers would not suffer as greatly. The Canadian delegation asked if any future embargo would be possible. The U.S. delegation replied that any future embargo would likely be a total embargo of all products. They also explained the embargo protection provisions that had been included in the farm bill. The U.S. delegation felt the embargo was not effective, since 3 million metric tons of grain had been sold along with all other products. The other major grain exporting nations increased exports and the embargo caused them to grow closer to the Soviet Union. The Canadians were concerned that with another embargo, the United States would sell wheat at depressed prices, and it would be easier for them to go along with an embargo if a price agreement were reached. They felt a total embargo would be devastating to both the United States and Canada's economies and agriculture, since the centrally planned economies import 35 percent of world trade and they have a major impact on world market prices.

LONG-TERM MARKET SUPPLY AND DEMAND TRENDS FOR WHEAT

The discussion of the long-term supply and demand trends began with the Canadian delegation explaining their position. Canada has a potential for a great increase in acreage and production. They have a great deal of farmable land not presently in operation, and many farmers follow a summer fallow practice which could be stopped if it became profitable to do so. Canada also has a great potential to increase irrigation acreage. Wheat is a major source of revenue and export balance of trade for Canada. Increased port capacity could help increase wheat exports along with the development of Prince Rupert. The big factor in increasing production is profitability.

The U.S. delegation explained that the major reason for increased wheat production in recent years has been expanded acreage. The high cost of production has forced this increase in acreage and in the long run, it will hurt productivity.

Productivity will decline because:

—agricultural research has declined;

—erosion has increased due to poor land being tilled and decreasing conservation practices. Erosion had not been a major concern until recent years;

—ground water has been depleted by irrigation and water resource development is not popular now in the United States because of the public's concern for environmental degradation;

—larger farming units are not as efficient; and

—inflation and interest rates have decreased inputs such as fertilizer, herbicides, pesticides, etc.

A U.S. delegate also added that new developments in animal science will allow more grain to be used for food.

A member of the Canadian delegation asked what has happened to the gasohol program. A U.S. delegate responded that its development has not really gone ahead because of oil prices leveling off, oil deregulation and the change in administrations. A Canadian delegate commented that gasohol would not help wheat farmers because gasohol production increases protein available for humans, and would compete with wheat for some markets.

INCREASED COORDINATION BETWEEN THE UNITED STATES AND CANADA

A member of the U.S. delegation explained that while they would like to see more cooperation on grain marketing between Canada and the United States, it may be a difficult task to accomplish. The wheat exporting nations met in Saskatoon, Canada in May 1979, to discuss matters of mutual concern relating to international trade in wheat, but no agreement of any consequences could be reached. In the United States, there are several factors that would make any such cooperation difficult. The United States often feels they are being asked to carry too much of the burden in supply management or reserve agreements:

—the farmers want maximum production at high prices;

—any plans of reducing food supply or exports are opposed by religious, humanitarians, consumer-urban, and the foreign policy communities.

Because of the small number of farmers, they don't have the political power to overcome these forces.

The Canadian delegation responded that because their wheat reserves are being held by farmers and their supply management system is based more on economic factors than the United States, they would be more willing to enter into some type of agreement. Canadian wheat prices are set by the Chicago market and their government doesn't have as many farmer assistance programs as the United States, so the Canadian producers are more ready to come to an agreement. They agreed that past international wheat agreements did not help the producer, but they felt some type of export pricing policy was needed. A member of the Canadian delegation explained that they have similar political problems in getting an agreement passed at this time, but some type of supply management is needed. Both countries have an indirect supply management program that has some influence on prices, but the Canadian system is so dependent on the U.S. price setting system that it is hard for them to have any direct control. They were interested in the grain export bank idea as a possible method of setting an export price and managing supplies.

A U.S. delegate stated that the grain export bank had widespread support in the House of Representatives, but felt the economic situation would have to be stabilized before the plan could be adopted.

A member of the Canadian delegation asked what could be done to increase world markets and what had happened to the Joint Commission idea that was proposed last year.

The U.S. delegation explained that a resolution had been introduced and the Carter administration had commented on the idea. The resolution was not adopted and the Carter administration was

not very favorable to the idea. They also commented that the present administration would probably be less favorable to any such idea as they would oppose its principle.

A member of the Canadian delegation responded that if some type of agreement is not reached soon, Canada will begin to compete directly with the United States for wheat export markets, and this would hurt both countries. There is a great deal of common ground between the United States and Canada on this issue and the common ground should be expanded.

A U.S. delegate stated that one area of growing pressure for both nations would be to help the developing nations. One possible way to do this would be a three price export system in which developing nations could be given a subsidized wheat price with the profits from exports to developed nations.

COST OF PRODUCTION

The afternoon session began with the Canadian delegation giving an overview of their farmers' costs of production. Their major factors in production costs are fuel, land and interest costs. Their most recent cost of production figures, including land, varied from $4.85 to $5.40. These figures, however, did not include recent increases in fuel costs and interest rates, so the cost would actually be much higher. The land rent costs had also dramatically increased and this factor was not evident in this data. In general, the Canadian farmers' costs of production are increasing much faster than the total consumer price index. They felt there would be no problem for Canada to agree upon cost of production figures.

The U.S. delegation explained that interest and variable costs were the two most rapidly increasing items in the United States. Interest costs had increased over 100 percent in the last 2 years. The high interest rates were also causing the machinery costs to increase because local dealers could not afford to stock needed repairs. Also, land prices have increased an average of 8.3 percent for the last 10 years. They emphasized that both countries have very similar costs of production.

A Canadian delegate asked what the prospects were for interest rates to decline. A member of the U.S. delegation answered that the interest rates would depend a great deal on the President's effort to reduce the Federal deficit, increase savings and also how long the present recession lasts.

INCREASING EXPORT MARKETS

The U.S. delegation began by explaining various methods of increasing export markets. Some of the methods mentioned were:

—increased funding for current programs;
—provide importers with financial aid;
—increase the number of grain importing countries;
—develop new products;
—provide tax incentives for exporters;
—develop export trading companies;
—develop a revolving fund (this has been authorized in the farm bill);
—improve port facilities in some importing nations; and
—encourage importers to establish a reserve system.

They commented that the extent of U.S. involvement in exports will be a big issue in the future.

The Canadian delegation responded that stock holding or reserves are an important issue. They felt a price would have to be set and the multinational grain companies would have to be involved. They concluded that a finance grain bank may be more effective.

The U.S. delegation explained how the proposed grain export bank would work. The United States presently has all the needed programs to implement the grain export bank and the profits would be used for any USDA program. The main objective was the fear that the government would become too involved. A member of the U.S. delegation stated that there were four ways to increase prices:

1. Decrease supply.
2. Increase demand.
3. Increase government supports.
4. Set an arbitrary price or an export price.

The grain export bank would set an export price which could be up to a dollar more than present prices per bushel without affecting demand. The program would test the market to see what we could get. Foreign nations are presently buying our wheat at lower prices than in 1970 because the United States has gone off the gold standard. The program would establish a minimum export price and would be a discretionary program. Another U.S. delegate suggested that the Third World should be taken into account and we could specify that any profits would be used to aid the developing nations.

A Canadian delegate asked about the type of support this idea had. A member of the U.S. delegation responded that the Farmers Union and American Agriculture Movement support it and most farmers support the idea. If Canada would make assurances that

they would not undersell the United States, the idea would become much more popular.

A Canadian delegate asked what would be done with the surplus grain. The U.S. delegation responded that the export price should be set at a price so that exports would not decline.

The impact on the developing nations was questioned by the Canadians. U.S. delegates responded that very little wheat is sold under Public Law 480 and most of the wheat exports are to developed nations such as the EEC, Japan and the centrally planned economies. In many instances, developing nations are potential grain exporters and the price increases may actually help them.

The Canadian delegation expressed interest in the planning of another meeting and suggested the next meeting include other nations. The Canadians felt that the issue must be brought to a higher level if it is to succeed. They were very interested in the grain export bank idea and stated that Canada would follow the United States lead in any pricing system. The Canadian delegation assured us that they would not under-price the U.S. wheat exports and felt both nations and their farmers could benefit from such a plan. They feel the key is to set the export prices at a level which would clear the world market. Another member of the Canadian delegation expressed concern that a reasonable margin of profit for the floor price would be very difficut to determine and the price should be set in relation to the cost of production. A U.S. delegate suggested that the manner in which the profits would be spent should be addressed. Before the meeting adjourned, both delegations expressed an interest in another meeting within a year.

Finally, the group discussed a statement outlining the topics considered at the meeting, what was concluded and what action should be taken. The following statement was adopted:

The Canada-United States Interparliamentary Group on International Wheat Marketing met on October 24, 1981, and found general agreement on issues relating to:

—current world market conditions and the short-term outlook for wheat exports and prices;
—the long-term demand and supply trends for wheat;
—current and prospective wheat production costs;
—potential increases in wheat production;
—distortions in the international wheat market caused by the policies of international grain traders, including the centrally planned economies, the European Economic Community, and Japan;
—the use of food as a strategic tool of foreign policy, including the effectiveness of embargos and the impact on producers; and
—the need for the differential treatment of developed and lesser-developed nations by both Canada and the United States.

The group concluded that:

—very rapidly increasing costs of production faced by grain producers in both nations, including high interest rates, result in a critical loss of farm income;
—both countries have the great potential to increase output so as to nourish a hungry world;

—the present distortions in the international grain marketing system prevent Canadian and United States grain producers from achieving that potential; and

—finally, disastrous consequences for farmers in both nations are imminent unless measures are undertaken to improve farm incomes.

The participants call upon their respective legislatures to establish a committee in each country with a mandate to develop specific proposals for improving producer returns, including a common floor price that, at a minimum, reflects the costs of production.

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